

Report of the auditor-general to the Limpopo provincial legislature and council on the Musina Municipality

Report on the financial statements

Introduction

1. I have audited the financial statements of the Musina Municipality set out on pages X to XX, which comprise the statement of financial position as at 30 June 2014, the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget and actual amount for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act, 2013 (Act No. 2 of 2013) (DoRA) and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-general's responsibility

3. My responsibility is to express an opinion on the financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the general notice issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Musina Municipality as at 30 June 2014, and its financial performance and cash flows for the year then ended in accordance with SA Standards of GRAP and the requirements of the MFMA and DoRA.

Emphasis of matters

7. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Material impairments

8. As disclosed in note 2 to the financial statements, the municipality made material impairments to the amount of R11 349 696 on receivables as a result of inadequate collection practises.

Additional matters

9. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Unaudited disclosure notes

10. In terms of section 125(2)(e) of the MFMA the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

Report on other legal and regulatory requirements

11. In accordance with the PAA and the general notice issued in terms thereof, I report the following findings on the reported performance information against predetermined objectives for selected strategic objectives presented in the annual performance report, non-compliance with legislation as well as internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

Predetermined objectives

12. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected strategic objectives presented in the annual performance report of the municipality for the year ended 30 June 2014.

- Strategic objectives under economic development and planning: To create a conducive environment for sustainable growth, to improve the quality of lives through social development provision of community services and to plan for the future and sustainable communities on pages 13 and 14.
 - Strategic objectives under technical services: To initiate and improve the quantity and quality of municipal infrastructure and services relating to roads and storm water on pages 10.
 - Strategic objectives under technical services: To initiate and improve the quantity and quality of municipal infrastructure and services relating to electricity on pages 10.
 - Strategic objectives under technical services: To initiate and improve the quantity and quality of municipal infrastructure and services relating to permit and licensing on pages 9.
13. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
 14. I evaluated the usefulness of reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned strategic objective. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's *Framework for managing programme performance information (FMPPI)*.
 15. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
 16. The material findings in respect of the selected strategic objectives are as follows:

Strategic objectives under technical services: To initiate and improve the quantity and quality of municipal infrastructure and services relating to roads and storm water

Usefulness of reported performance information

Consistency of targets

17. Section 41(c) of the Municipal Systems Act, 2000 (Act No.32 of 2000) requires the service delivery and budget implementation plan to form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. A total of 67% of the reported targets were not consistent with those in the approved service delivery and budget implementation plan. This was due to lack of review of targets.

Measurability of indicators and targets

18. The FMPPI requires the following:
 - Performance targets must be specific in clearly identifying the nature and required level of performance. A total of 33% of the targets were not specific.

- Performance targets must be measurable. I could not measure the required performance for 33% of the targets.
- Performance indicators must be well defined by having clear data definitions so that data can be collected consistently and is easy to understand and use. A total of 67% of the indicators were not well defined.
- Performance indicators must be verifiable, meaning that it must be possible to validate the processes and systems that produced the indicator. A total of 67% of the indicators were not verifiable.

This was due to a lack of proper systems and processes and technical indicator descriptions.

Reliability of reported performance information

19. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. The reported performance information is not valid, accurate and complete when compared to the source information or evidence provided. This was due to a lack of monitoring of the completeness of source documentation in support of actual achievements and frequent review of the validity of reported achievements against source documentation.

Strategic objectives under technical services: To initiate and improve the quantity and quality of municipal infrastructure and services relating to electricity

Usefulness of reported performance information

Measurability of indicators

20. The FMPPI requires the following:
 - Performance indicators must be well defined by having clear data definitions so that data can be collected consistently and is easy to understand and use. A total of 50% of the indicators were not well defined.
 - Performance indicators must be verifiable, meaning that it must be possible to validate the processes and systems that produced the indicator. A total of 50% of the indicators were not verifiable.

This was due to a lack of proper systems and processes and technical indicator descriptions.

Reliability of reported performance information

21. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. Adequate and reliable corroborating evidence could not be provided for 50% of the targets to assess the reliability of the reported performance information. The auditee's records

did not permit the application of alternative audit procedures. This was due to a lack of monitoring of the completeness of source documentation in support of actual achievements and frequent review of the validity of reported achievements against source documentation.

Additional matters

22. I draw attention to the following matters:

Achievement of planned targets

23. Refer to the annual performance report on pages 3 to 14 for information on the achievement of planned targets for the year. This information should be considered in the context of the adverse conclusions expressed on usefulness and reliability of the reported performance information in paragraphs 17 to 19 of this report.

Unaudited supplementary schedules

24. The supplementary information set out on page 2 does not form part of the annual performance report and is presented as additional information. I have not audited these schedules and, accordingly, I do not express a conclusion thereon.

Compliance with legislation

25. I performed procedures to obtain evidence that the entities had complied with applicable legislation regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

Strategic planning and performance management

26. The performance management system and related controls were inadequate as it did not describe and represent the processes of performance planning, monitoring, measurement, review and reporting and how it is conducted, organised and managed, including determining the roles of the different role-players, as required by section 38 of the MSA and regulation 7 of the *Municipal planning and performance management regulations*.

Annual financial statements, performance and annual reports

27. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA.

Material misstatements of current assets identified by the auditors in the submitted financial statement were subsequently corrected and the supporting records were provided subsequently, resulting in the financial statements receiving an unqualified audit opinion.

Audit committee

28. The audit committee did not advise the council on matters relating to compliance with legislation, as required by section 166(2) (a) (vii) of the MFMA.

Internal audit

29. The internal audit unit did not function as required by section 165(2) of the MFMA, in that it did not advise the accounting officer and report to the audit committee on matters relating to internal controls, accounting procedures and practices, risk and risk management and loss control.
30. The internal audit unit did not advise the accounting officer and report to the audit committee on matters relating to compliance with the MFMA, the DoRA and other applicable legislation, as required by section 165(2)(b)(vii) of the MFMA.

Expenditure management

31. Money owed by the municipality was not always paid within 30 days or an agreed period, as required by section 65(2)(e) of the MFMA.

Consequence management

32. Unauthorised, irregular and fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2) (a) (ii) of the MFMA.

Internal control

33. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on the annual performance report and the findings on non-compliance with legislation included in this report.

Leadership

34. An inadequate performance management system and processes exist which does not ensure performance information that is in all instances useful and reliable.

Financial and performance management

35. The financial statements contained misstatements that were corrected. This was mainly due to inadequate review.

Governance

36. Through on-going monitoring the governance structures has to ensure there is an adequately resourced internal audit unit that assessed the effectiveness of the internal control environment, including financial and performance reporting and

compliance with legislation, enabling the audit committee to advise the council on all matters required by legislation.

Auditor General.

Polokwane

28 November 2014



**AUDITOR - GENERAL
SOUTH AFRICA**

Auditing to build public confidence